



A bad way to energize the industry

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President Barack Obama has announced that the government will offer an \$8.3 billion loan guarantee to help Atlanta-based Southern Co., one of the largest producers of electricity in the United States, build two more nuclear reactors at its Vogtle plant near Augusta, Ga. The guarantee would cover about 70 percent of the projected construction cost.

The president's budget includes a total of \$54 billion for nuclear-plant loan guarantees, though Congress to date has approved only \$18.5 billion. The Georgia project could be eligible for further loan guarantees from the Japanese government since Westinghouse, which designed the reactors, is a unit of Toshiba.

The next step is for Southern Co. to take the loan guarantees to the financial markets to seek financing, with the federal government's Federal Financing Bank as a backup. If the project is completed — in 2016 or 2017 according to optimistic estimates — these would be the first nuclear reactors built in the U.S. since the Three Mile Island nuclear accident in 1979.

It's not hard to argue that nuclear power, which now accounts for about 20 percent of the electricity generation in the U.S., should be a larger part of the energy mix. Safety procedures have been improved since Three Mile Island, the 1979 incident in which a reactor at a Pennsylvania plant suffered a partial meltdown — the only such event in U.S. history. Also, nuclear plants generate fewer greenhouse gases than plants that burn fossil fuels. When you stop to think about it, fission power might not seem as ominous as critics make it out to be.

Using loan guarantees to "jump-start" the building of more nuclear reactors, however, is a poor way to get the job done. It is argued that private investors have been reluctant to lend money for nuclear projects, in part because regulatory requirements are onerous, and it is true that it takes the Nuclear Regulatory Commission four years to issue a permit for a nuclear plant.

However, Jerry Taylor, an energy specialist at the libertarian Cato Institute, says that the main reason private lenders are reluctant to finance nuclear projects is that at current prices, nuclear projects tie up much more capital for longer than their main competitors, natural-gas-fired generators. If that is the case, it makes little sense to put taxpayers on the hook.

Making nuclear plants dependent on the government distorts normal market forces by removing incentives to decrease costs and stifling competition and innovation. If the problem is regulatory overkill, the solution is regulatory reform, not taxpayer subsidies.

In addition, President Obama made it clear in his speech that he is offering a nuclear carrot to Senate Republicans to drum up support for the broader carbon-dioxide rationing cap-and-trade bill the Senate has so far declined to support. That's a high price to pay for an uncertain nuclear future.

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